



# KRS Employer News

Kentucky Employees Retirement System • County Employees Retirement System • State Police Retirement System

VOLUME 22, ISSUE 1

MAY 2004

## KRS News Briefs

### Updating Your Sick Leave Policy?

All KERS and SPRS agencies and many CERS agencies participate in a sick leave program to provide additional benefits at retirement. If your agency participates in one of the KRS approved sick leave programs, please remember to file a copy of your personnel policies with the retirement office anytime changes are made to the accrual or accumulation of sick leave. Doing so will ensure that your employees receive the correct information when they contact the retirement office.

### Purchasing Service with Section 457 Funds

The Internal Revenue Service (IRS) issued final 457 plan regulations last summer. As a result, Kentucky Retirement Systems will no longer accept trustee-to-trustee transfers of Section 457 funds after August 31, 2004 to purchase non-qualified service, school board summer months, or to pay the cost to convert eligible non-hazardous service to hazardous duty service.

### Kentucky Deferred Compensation Board Action

Effective July 1, 2004 the Deferred Compensation Authority will begin assessing a fee of \$75 for each transfer of funds to the retirement systems to purchase service credit.

### New KRS Employer Page

The retirement systems recently began a new initiative to provide increased information online to participating employers. Employers wishing to access this information can go to the KRS web site at [www.kyret.com](http://www.kyret.com) and click on "Employer Information". Over the coming months, additional information will be added to the Employer page including an online Reporting Official Manual, Employer FAQ's, and employer specific forms.

**[www.kyret.com](http://www.kyret.com)**

<http://www.kyret.com/Employers/EmployerInfo.htm>

## New Reporting Requirements

As a result of legislation passed during the 2004 General Assembly, new reporting procedures and penalties will become law July 13, 2004. These changes will apply to the contributions and reports due in August for the July reporting period.

### Due Date for Receipt of Contributions

State law requires participating agencies to forward employee and employer contributions to the retirement office by the 10th day of the month following the period being reported. In the past, penalties were applied if contributions were not received by the 20th day of the month. Effective July 13, 2004, legislative changes will take effect and penalties will begin accruing if the contributions are not received by the 10th day of the month following the period being reported. This new deadline will apply to the contributions due in August for the July reporting period.

### Increased Penalties for Late Reporting

Effective July 13, 2004, any agency failing to file contributions by the 10th day of the month will be required to pay interest on the delinquent contributions at 8.25% compounded annually **subject to a minimum penalty of \$1000**. Please note that the minimum penalty has increased from \$100 to \$1000. The new minimum penalty will apply to the contributions due in August for the July reporting period.

### Law Changes Affecting Bonus Payments

Under the new law changes, any bonus payments, severance payments, and employer payments for purchases will be spread over the employee's actual service with the retirement system if the combined amount of payments to the employee exceeds \$1,000 for the fiscal year.

Example: John Doe participates in CERS and receives 3 separate bonus payments during the year of \$400. Given that the total bonus payments for the fiscal year exceeds \$1,000, the retirement office will spread the \$1200 (\$400 x 3 bonuses) received over John's actual service in CERS. Since John has 12 years of actual service in CERS, \$100 will be added to the creditable compensation reported for each individual fiscal year.

## INSIDE THIS ISSUE

- |   |   |
|---|---|
| 1 | KRS BRIEFS                              |
| 1 | NEW REPORTING REQUIREMENTS              |
| 2 | LEGISLATION AFFECTING CURRENT EMPLOYEES |
| 3 | LEGISLATION AFFECTING FUTURE EMPLOYEES  |
| 3 | 2004-2005 EMPLOYER CONTRIBUTION RATES   |
| 4 | PRE-RETIREMENT EDUCATION PROGRAM (PREP) |

The retirement office will be responsible for determining if the accumulated bonus payments, severance payments, and employer payments for purchases made to the employee exceed \$1000 for the fiscal year. As the reporting official, your responsibility will be to report any bonus payments, severance payments, or employer payments for purchases provided to an employee separately by completing and filing a Supplemental Wage Report. Copies of the Supplemental Wage Report are available by contacting the retirement office or by going online to the KRS web site at [www.kyret.com](http://www.kyret.com) and selecting the Employer page.

## Legislation Affecting Current Employees

### Using Purchases for Insurance Benefits at Retirement

2004 legislative changes provide that most service purchases made on or after **August 1, 2004** will not be used to determine insurance benefits at retirement. The last business day prior to the effective date of the new law is **Friday, July 30, 2004**. This provision will apply to all service purchases made by the employee or employer with the exception of omitted service and recontribution of refunded service.

Employees wanting to purchase service credit and use the service for determining insurance benefits at retirement **must complete the purchase on or before Friday, July 30, 2004**. In order to complete the purchase prior to this date, any lump-sum payments, completed contracts for Installment Purchase of Service Agreements (IPS), and/or a completed Form 4170, Direct Transfer/Rollover Acknowledgement Form must be filed at the retirement office on or **before the close of business on Friday July 30, 2004**.

Employees who are currently eligible for a full insurance contribution at retirement will not be affected by this legislation.

### New Vesting Requirements

2004 legislative changes will also require employees to be participating and vested in KERS, CERS or SPRS in order to purchase Past Service with a participating agency. Past Service with an agency is service worked prior to the date the agency began participating in the retirement systems.

In order to be vested, an employee under age 65 will have to attain 60 months of combined service in KERS, CERS or SPRS prior to making the purchase. An employee age 65 or older will have to attain 48 months of combined service in KERS, CERS or SPRS prior to making the purchase.

The effective date of the new vesting requirement to purchase past service with a participating agency is **Tuesday, July 13, 2004**. Employees wanting to

purchase this type of service before the new vesting requirement becomes law **must complete the purchase on or before the close of business on Monday, July 12, 2004**. To complete the purchase prior to this date, any lump-sum payments, completed contracts for Installment Purchase of Service Agreements (IPS), and/or a completed Form 4170, Direct Transfer/Rollover Acknowledgement Form must be filed at the retirement office on or **before the close of business on Monday July 12, 2004**.

### New Service Purchase

Employees currently or previously employed with a participating Community Action Agency may be eligible to purchase additional service as a result of legislation enacted during the 2004 General Assembly. Employees who were contracted to work less than 12 months a year are now eligible to purchase the additional months needed to complete the fiscal year. To purchase this service, the Community Action Agency where the service was worked must verify the periods of employment by completing a Form 4225, Verification of Past Employment. Copies of the Form 4225 can be requested from the retirement office or by going online to the system's website at [www.kyret.com](http://www.kyret.com). The maximum amount of service that can be purchased for a particular fiscal year under these provisions cannot exceed 3 months. The effective date of this legislation will be **July 13<sup>th</sup>, 2004**.

### School Board Service Credit

The legislature also approved a measure to ensure that retirement service credit is awarded to school board employees who are required to work additional hours to make up for missed instructional time lost due to emergencies, including weather related emergencies. Under the provisions of SB 28, the additional time worked by a classified school board employee shall be used for determining retirement service credit if the employee is contracted to work 6 hours per day and required to work the additional instructional time. Classified employees contracted to work less than 6 hours per day may be assigned other duties to make up for any service credit that is lost due to school emergencies. The provisions of SB 28 will apply to both the current and future fiscal years.

Please remember that the amount of service credit awarded to classified school board employees is based upon the number of actual days worked that is reported at fiscal year end. If your board of education becomes eligible for these new provisions in the future, it will be the reporting official's responsibility to accurately determine how any additional time worked will affect the number of actual days worked that is reported to the retirement office.

### Changes for New Members as of July 1, 2003

Under the provisions of HB 290, employees who began

continued on page 3

participating in the retirement systems **on or after July 1, 2003** will be eligible for insurance benefits at retirement based upon a new formula.

Non-hazardous employees whose participation begins on or after July 1, 2003 will earn a contribution for insurance of \$10 per month for each year of earned service. Employees working in a hazardous duty position whose participation begins **on or after July 1, 2003** will earn a contribution for insurance of \$15 per month for each year of earned hazardous duty service. Upon their death, the spouse of a hazardous duty member will receive a monthly insurance contribution of \$10 per month for each year of hazardous duty service provided the spouse is designated as beneficiary and remains eligible for monthly benefits upon the retired member's death.

In order to be eligible for these insurance benefits at retirement, employees who begin participation **on or after July 1, 2003** will be required to earn 10 years of actual service credit. The monthly contribution will also be increased annually by the change in the Consumer Price Index for all urban consumers (CPI-U).

If a member begins participating **on or after July 1, 2003** and is disabled in the line of duty or killed in the line of duty, the 10-year service requirement will be waived. In the line of duty insurance benefits will be calculated as if the member had 20 years of hazardous duty service under the new insurance provisions.

The provisions of the bill also allow the General Assembly to alter the level of insurance benefits for employees hired **on or after July 1, 2003**.

## Legislation Affecting Future Employees

Several legislative changes were enacted which will alter benefits for employees who begin participating in the retirement systems on or after August 1, 2004. A list of legislative changes affecting these new employees is provided below.

- Employees who begin participating in the retirement systems **on or after August 1, 2004** will not be eligible to use service purchases for determining eligibility for death benefits, disability retirement, normal retirement, or early retirement. This provision will apply to all service purchases made by the employee or employer with the exception of omitted service and recontribution of refunded service.
- Employees who begin participating in the retirement systems **on or after August 1, 2004** will be eligible for disability benefits based upon a new formula. The new formula for non-hazardous employees will provide a disability benefit that is the higher of 20% of Final Rate of Pay or an unreduced benefit based

upon actual service credit. The new formula for hazardous duty employees will provide a disability benefit that is the higher of 25% of Final Rate of Pay or an unreduced benefit based upon actual service credit. Employees hired **on or after August 1, 2004** will also be eligible to apply for disability benefits without regard to eligibility for an unreduced benefit.

- Employees who begin participating in the County Employees Retirement System (CERS) in a non-hazardous position **on August 1, 2004 or after** will be eligible for a 2.0% benefit factor at retirement.

## 2004-2005 Employer Contributions Rates

### KERS & SPRS Contribution Rates

The General Assembly adjourned April 13th without passing an Executive Branch budget for the upcoming biennium. This issue is important to participating agencies in that the employer contribution rates recommended by the KRS Board for the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS) are subject to approval in the biennial budget.

In the versions of the budget adopted individually by the House of Representatives and Senate, the employer contribution rates recommended by the KRS Board for KERS and SPRS were reduced to the level proposed by the Governor. If ultimately enacted into law or incorporated into an Executive Spending Plan by the Governor, these reductions will mark the 7th fiscal year that the state has not appropriated the funds necessary to pay the employer contribution rates for KERS and SPRS recommended by the KRS Board and its consulting actuary. Based upon estimated payrolls, these reductions from the recommended rate would result in a shortfall of more than \$201 million to KERS and SPRS over the next biennium.

Unless further action is taken by the General Assembly or a Court, employers participating in KERS and SPRS will be required to pay the contribution rates recommended by the KRS Board of Trustees. The employer contribution rates recommended by the KRS Board for KERS and SPRS for the upcoming biennium are provided in the table below.

Recommended Employer Contribution Rates		
Retirement System	2004-2005 Fiscal Year	2005-2006 Fiscal Year
KERS (Non-Hazardous):	10.29%	12.89%
KERS (Hazardous):	19.47%	21.46%
SPRS:	28.08%	34.24%

## CERS Employer Contribution Rates

Employer contribution rates for the County Employees Retirement System (CERS) are not subject to approval in the biennial budget. The employer contribution rates for CERS for fiscal year 2004-2005 are provided below.

CERS Employer Contribution Rates	
Retirement System	2004-2005 Fiscal Year
CERS (Non-Hazardous):	8.48%
CERS (Hazardous):	22.08%

These employer contribution rates for CERS are effective July 1, 2004 through June 30, 2005.

## Pre-Retirement Education Program (PREP)

The retirement office will once again be hosting the Pre-Retirement Education Program (PREP) at various locations throughout the state. Guest speakers will be on hand to discuss KRS benefits, Social Security, Estate Planning, and transitioning to retirement. A schedule of dates and locations for the 2004 PREP program is provided in the following column.

For more information on the PREP Program, please go to the KRS web site at [www.kyret.com](http://www.kyret.com), or phone the retirement office at (502) 564-4646 inside Frankfort or (800) 928-4646 outside Frankfort and enter extension 4522.

2004 Pre-Retirement Seminars	
Date	Location
June 3 (Thursday)	General Butler State Resort Park
June 25 (Friday)	Lake Cumberland State Resort Park
July 15 & 16 (Thursday-Friday)	Frankfort – Holiday Inn Capital Plaza
August 6 (Friday)	Rough River Dam State Resort Park
August 27 (Friday)	Owensboro – Executive Inn
September 10 (Friday)	Jenny Wiley State Resort Park
October 29 (Friday)	Lake Barkley State Resort Park

**TO LEARN MORE ABOUT LEGISLATIVE CHANGES TO RETIREMENT BENEFITS, PLEASE VISIT OUR WEB SITE AT [WWW.KYRET.COM](http://WWW.KYRET.COM) OR CONTACT THE RETIREMENT OFFICE AT: 502-564-4646 OR 1-800-928-4646**



[www.kyret.com](http://www.kyret.com)

KENTUCKY RETIREMENT SYSTEMS  
PERIMETER PARK WEST  
1260 LOUISVILLE ROAD  
FRANKFORT KY 40601